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Message Text

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72
ACTION EB-11

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NSC-10 PA-03 RSC-01 AID-20 CIEP-02 SS-15 STR-08

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---------- 036459
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FM AMEMBASSY SINGAPORE
TO SECSTATE WASHDC 8855
INFO AMEMBASSY KUALA LUMPUR
AMEMBASSY JAKARTA

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SUBJECT: IMPLICATIONS FOR U. S. EXPORTS OF RECENT FOREIGN EXCHANGE DEVELOPMENTS

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SUMMARY: SINGAPORE MAINTAINED PARITY OF ITS CURRENCY THROUGH BOTH DEVALUATIONS. ALTHOUGH TOO EARLY TO DISCERN FULL EFFECTS CURRENCY REALIGNMENT, ALREADY CLEAR THAT US HAS BECOME MORE COMPETITIVE. WHILE PROBLEMS OF DELIVERY RESULTING FROM PARALLEL US AND WORLD BUSINESS CYCLES WILL NEGATE SOME SHORT TERM ADVANTAGES, EMBASSY EXPECTS US EXPORTS SINGAPORE TO RESPOND HEALTHILY TO NEW PARITIES. END SUMMARY.

1. SINGAPORE IS UNUSUAL ECONOMY. IT IS SO COMPETITIVE THAT EFFECTS OF DEVALUATION SHOWED UP IMMEDIATELY. IN 1972 FOR INSTANCE US EXPORTS TO SINGAPORE INCREASED BY 20 PERCENT TO TAKE 14 PERCENT SHARE OF MARKET. JAPANESE ON OTHER HAND
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BARELY INCREASED THEIR MARKET SHARE WITH THEIR EXPORTS TO SINGAPORE GROWING BY ONLY 10 PERCENT. MUCH OF THIS TRADE ADMITTEDLY IS FUNCTION US AND JAPANESE INVESTMENT IN SINGAPORE AND SURROUNDING AREA BUT FIRST DEVALUATION PLAYED SOME

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PART THIS HAPPY TREND. SINGAPORE ALSO UNUSUAL IN THAT MANUFACTURING SECTOR DOES NOT COMPETE SIGNIFICANTLY WITH US. MUCH US INVESTMENT FOR INSTANCE CAME TO SINGAPORE IN ORDER TO MAINTAIN OR REGAIN US WORLD MARKETS FROM JAPANESE. THIS TRUE OF OTHER THIRD COUNTRY INVESTMENT IN SINGAPORE. IN VIEW OF THIS EMBASSY LOOKED PRIMARILY AT COMPETITIVENESS US PRODUCTS VIS- A- VIS JAPANESE.

2. EMBASSY TOOK SELECTED SAMPLE PRODUCTS WHERE US AND JAPAN BOTH SIGNIFICANT SUPPLIERS THIS MARKET. AT LEAST THREE COMPANIES PER PRODUCT WERE INTERVIEWED ON THIRTY PRODUCTS. IN INTERVIEWS OTHER PRODUCTS WERE DISCUSSED BUT STATISTICAL SUMMARIES INCLUDE ONLY 30 PRODUCTS SAMPLED. MEAN PREVAILING PRICE DIFFERENCE PRODUCTS SAMPLED WAS US GOODS 24 PERCENT HIGHER BUT WITH STANDARD DEVIATION OF 25 PERCENT. MEAN PRICE CHANGE US GOODS SINCE LAST CURRENCY REALIGNMENT WAS MINUS 1/5 OF 1 PERCENT BUT ALSO WITH STANDARD DEVIATION OF 8 PERCENT. INCREASE IN JAPANESE PRICES WAS 19 PERCENT WITH STANDARD DEVIATION 11.7 PERCENT. FIRST TWO STANDARD DEVIATIONS ILLUSTRATE ERRATIC NATURE OF PRICES AND PRICE CHANGES US GOODS BUT JAPANESE PRICE MOVEMENTS WERE RE-LATIVELY UNIFORM.

3. IN GENERAL, IMPORTERS OF US PRODUCTS SURVEYED HAVE ABSORBED FOREIGN EXCHANGE SAVINGS. SOME SAY ARE ANTICIPATING PRICE INCREASES, OTHERS THAT THEY HAVE ALREADY HAD INCREASES IN PRICES AND/ OR FREIGHT AND HANDLING CHARGES. SOME ADMIT TAKING PROFIT. THOSE TAKING FOREIGN EXCHANGE SAVINGS AS PROFIT ARE IN FACT LOOKING FOR MORE US LINES AND SAY THEY MAKING GREATER SALES EFFORT. SINCE US PRODUCTS GENERALLY SUPERIOR OR TECHNICAL OR BOTH, THEY REQUIRE GREATER SALES EFFORT. THUS ABSORPTION OF PROFITS DOES NOT GREATLY DISTURB US. IT INTERESTING TO NOTE, HOWEVER, THAT DEVALUATION SEEMED TO LEAD TO INFLATIONARY EXPECTATIONS ON ONE HAND AND RELUCTANCE TO LOWER PRICE ON OTHER, LEST IMPORTERS HAVE TO INCREASE PRICES IN NEAR FUTURE, A MOVE THEY CONSIDER
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NEGATIVE IN NET IMPACT.

4. THOSE PRODUCTS WITHIN SAMPLE IN WHICH US ALREADY COMPETITIVE, I. E. WITHIN 15-30 PERCENT, AND WITH QUALITATIVE EDGE (HEAVY EQUIPMENT, CERTAIN TEXTILES, INDUSTRIAL EQUIPMENT AND SUPPLIES, SOME APPLIANCES, SOME OFFICE EQUIPMENT) WERE MORE LIKELY TO PASS FOREIGN EXCHANGE SAVINGS ON TO RETAILERS OR END USER. ALSO WHERE US MANUFACTURERS REPRESENTATIVE LOCATED SINGAPORE, FOREIGN EXCHANGE EARNINGS MUCH MORE LIKELY TO BE PASSED ALONG. LATTER, OF COURSE, WOULD NOT BE HERE IF THEIR PRODUCTS NOT ALREADY SIGNIFICANTLY COMPETITIVE AND THEIR POLICY IS, ALMOST BY DEFINITION, TO EXPAND THEIR SHARE OF THIS MARKET.

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5. IN CASES WHERE PRICES US PRODUCTS SIGNIFICANTLY HIGHER (SOME CONSUMER APPLIANCES, SOUND EQUIPMENT, SHIRTS AND SOME READY MADE STYLE GARMENTS, IMAGE PROJECTORS) THERE WAS EITHER NO SAVINGS PASSED ALONG OR PRICES ACTUALLY INCREASED. THESE PRODUCTS ARE IMPORTED FOR MORE AFFLUENT SINGAPOREANS AND RESIDENT AMERICANS. PRODUCTS DO NOT ENJOY SIGNIFICANT PRICE ELASTICITIES AS THERE IS NO SUBSTITUTION EFFECT (BECAUSE NEAREST COMPETITOR NOT CONSIDERED EQUIVALENT AND IS MUCH LESS EXPENSIVE) AND VERY LITTLE INCOME EFFECT. IMPORTERS, THEREFORE, SKIM MARKET.

6. MOST US HEAVY EQUIPMENT COMPANIES SELLING INTO THIS MARKET ALSO MANUFACTURE ABROAD. THEIR PRICE AND SOURCING POLICIES DIFFER SO GREATLY, HOWEVER, THAT IT DIFFICULT GENERALIZE ABOUT REACTIONS TO DEVALUATION. ONE OF LARGEST US EXPORTERS TO THIS MARKET FOR INSTANCE MAINTAINS UNIFORM WORLD PRICE LIST. THEIR PRICES HAVE NOT CHANGED, THEREFORE FOREIGN EXCHANGE SAVINGS FROM US SOURCING WAS ABSORBED IN LOSSES FROM JAPANESE COMPANIES. SEVERAL COMPANIES SAID THAT SOURCING STUDIES WERE UNDER WAY IN CORPORATE HEADQUARTERS. ONE COMPANY MANUFACTURING IN UK AND NETHERLANDS AS WELL AS IN US IS SHIFTING FROM NETHERLANDS TO US BUT NOT FROM UK ON CERTAIN LINES. THIS COMPANY MAINTAINS ARMS LENGTH POLICY WITH ITS VARIOUS MANUFACTURING BASES, AND SALES FACILITIES ARE ABLE TO MAKE THEIR OWN SOURCING DECISIONS. ONE COMPANY SAID ITS PRODUCT WAS NOW ABLE TO BEAT OUT ITS JAPANESE BASED US
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COMPETITORS BUT WAS STILL SLIGHTLY MORE EXPENSIVE THAN JAPANESE OWNED COMPETITOR. SEVERAL COMPANIES IN HEAVY EQUIPMENT AND TWO SELLING AIR CONDITIONING SAID THAT IF SALES INVOLVE TENDER, JAPANESE CONTINUE TO SUBMIT BIDS OR OFFER CREDIT TERMS SUFFICIENTLY COMPETITIVE TO GET JOB IN SPITE OF PRICE LIST CHANGES. IN VIEW OF VARIED POLICIES AND FACT THAT IT STILL NOT LONG SINCE CURRENCY REALIGNMENT, IT DIFFICULT TO FORM GENERALI-ZATION ABOUT SOURCING. ONE CAN PLAY WITH FEW OBSER-VATIONS HOWEVER. DURING YEARS WHEN US DOLLAR WAS SO OVERVALUED, THERE WAS INSTITUTIONAL BUILDUP THAT WILL NOT BE UNDONE OVERNIGHT. RELATIVE GROWTH US AND OFFSHORE PRODUCTION FACILITIES SHOULD BE AFFECTED AS WELL AS SOME SOURCING WITHOUT POSITIVE EXPORT INCENTIVES, READJUSTMENT OF THESE COMPANIES IS GOING TO TAKE TIME. SINCE IT WILL TAKE TIME, RELATIVE INFLATION RATES WILL BE ULTIMATE ARBITER FULL DEVALUATION EFFECTS.

7. RELATED TO LAST POINT IS PROBLEM OF DELIVERY. WORLD' S BUSINESS CYCLES SEEM TO BE RUNNING PARALLEL FOR FIRST TIME IN MANY YEARS AND US COMPANIES HERE, PARTICULARLY CAPITAL GOODS AND HEAVY EQUIPMENT

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INDUSTRIES, HAVING PROBLEMS WITH DELIVERY. ONE REP SAID
THAT IN TWO MONTHS HE WOULD BE OUT OF INVENTORY AND COULD
NOT EXPECT REPLACEMENT FOR SIX MONTHS. ANOTHER SAID ONLY
US RECESSION WOULD RESOLVE HIS SOURCING PROBLEMS. THIS
NOT LIMITED TO HEAVY EQUIPMENT. ONE OF LARGEST DEPARTMENT
STORE CHAINS SAID THAT THEY WERE GETTING NINE MONTHS
DELIVERY (IF THEY COULD GET SUPPLIES AT ALL) ON
HOTTEST ITEMS THEY MOVE, BED LINENS, TOWELS AND COTTON
GARMENTS.

8. PRINCIPAL BENEFITS DEVALUATION CAN BE EXPECTED IN THOSE
PRODUCTS WHERE US COMPETITIVE BEFORE DEVALUATION. US
HEAVY EQUIPMENT, FOR INSTANCE, WHICH WAS COMPETITIVE BEFORE
DEVALUATION WITH QUALITY AND SERVICE REPUTATION MAKING SV
10 TO 20 PERCENT PRICE DISADVANTAGE ARE NOW EITHER CHEAPER
OR JUST FEW PERCENTAGE POINTS MORE EXPENSIVE THAN JAPANESE
COMPETITION. CRAWLERS, LOADERS, FORK LIFTS, TRUCK MOUNTED
HYDRAULIC CRANES, SKIDDERS AND DITCHERS IN LARGER SIZES NOW
HAVE ADVANTAGE IN PRICE AS WELL AS QUALITY. SMALLER
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UNITS STILL MORE EXPENSIVE THAN JAPANESE BUT WITHIN RANGE.
IN ONE INSTANCE REPORTED, REALIGNMENT LED JAPANESE TO STOP
PRODUCTION OF ONE LINE OF TRUCK MOUNTED HYDRAULIC CRANES.
SAME COMPANY ON DAY OF INTERVIEW HAD JUST CONCLUDED SALE
TWO CRANES ON ANOTHER LINE WHICH LAST YEAR WOULD HAVE GONE
TO JAPANESE.

9. SEVERAL ITEMS EMERGE FROM THIS SURVEY THAT
SHOULD NOW DO SIGNIFICANTLY BETTER. SHOPPING LIST IS VARIED
AS WAS SAMPLE. USZJIVOQTRIC HAND TOOLS WHICH WERE 10 PERCENT
MORE EXPENSIVE THAN GERMAN COMPETITOR, NOW ARE 2 PERCENT LESS.
US LIGHT DUTY ELECTRIC HAND TOOLS ARE NOW 3 TO 4 PERCENT
LESS THAN JAPANESE COMPETITOR. US HOME KIT TOOLS ARE ALSO
MORE COMPETITIVE NOW. POWER CENTRIFUGAL PUMPS ARE WITHIN
20 PERCENT OF JAPANESE AND 10 PERCENT OF GERMAN. US AIR
CONDITIONERS NOW WITHIN 10 PERCENT OF JAPANESE. SOME
OUTER GARMENTS ONLY 15 PERCENT MORE EXPENSIVE THAN
JAPANESE AND OTHER COMPETITORS. STYLE ADVANTAGE MAKES
THIS HIGHLY COMPETITIVE DIFFERENCE. COTTON TEXTILES,
SHIRTINGS, SHEETS, TOWELS, DENIMS ARE ALL VERY
COMPETITIVE BUT IMPORTERS HAVE PROBLEMS OBTAINING SUP-
PLIES. ELECTRONIC CACULATORS ARE COMPETITIVE BUT THIS AS
MUCH RESULT TECHNOLOGICAL DEVELOPMENTS. IRON AND STEEL
ANGLES, STEEL CHANNELS, STEEL PLATE, IRON AND STEEL PILES,
IF SHIPPING AND SUPPLY PROBLEMS CAN BE WORKED OUT, ARE ALSO
NOW COMPETITIVELY PRICED. US SPEAKER SYSTEMS NOT ONLY
CONSIDERED FAR SUPERIOR BUT HAVE BECOME MORE PRICE
COMPETITIVE. VALVES, WELDING FITTINGS AND COPPER
WIRE ACCESSORIES ARE ALSO NOW MORE COMPETITIVE. EMBASSY
HAS BEEN REPORTING ON PRODUCTS THAT HAVE BECOME
MORE ATTRACTIVE AS RESULT OF DEVALUATION, AND WILL

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CONTINUE TO DO SO.
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